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FTAI - Q3 2016 Fortress Transportation and Infrastructure Investors LLC Earnings Call

EVENT DATE/TIME: NOVEMBER 02, 2016 / 12:00PM GMT

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PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the Fortress Transportation & Infrastructure Investors LLC third quarter 2016 earnings conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host for today, Alan Andreini. You may begin.

Alan Andreini - *Fortress Transportation and Infrastructure Investors - Managing Director, IR*

Thank you. I would like to welcome you to the Fortress Transportation and Infrastructure third quarter 2016 earnings call. Joining me here today are Joe Adams, our Chief Executive Officer; and Scott Christopher, our Interim Chief Financial Officer.

We have posted an investor presentation in our press release on our website, which we encourage you to download if you have not already done so. Also, please note that this call is open to the public in listen-only mode and is being webcast.

In addition, we will be discussing some non-GAAP financial measures during the call today. The reconciliation of those measures to the most directly comparable GAAP measures can be found in the earnings supplement.

Before I turn the call over to Joe, I would like to point out that certain statements made today will be forward-looking statements. These statements by their nature are uncertain and may differ materially from actual results. We encourage you to review the disclaimers in our press release and investor presentation regarding forward-looking statements and to review the risk factors contained in our quarterly report filed with the SEC.

Now I would like to turn the call over to Joe.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Thanks very much, Alan. To start today, I'm pleased to announce our sixth dividend as a public company and our 21st consecutive dividend since inception. The dividend of $0.33 per share will be paid on November 30, based on a shareholder record date of November 18th. We remain committed to this dividend and there is nothing in this past quarter or ahead that we see, which places the dividend in question.

As a Company, our objective is to provide investor returns through dividend income and earnings growth. The business today has two main components, Aviation and Infrastructure. The Aviation sector has grown nicely with over $515 million of equity invested as of this call and another $135 million in letters of intent, which together should produce over $150 million of annual funds available for distribution of FAD, which more than covers the dividend and SG&A of the whole company.

Our infrastructure assets consisted of four North American port and rail road terminals with excellent connectivity located in strategic places. This portfolio of critical industrial infrastructure offers multiple opportunities to grow over many years. Overall, we feel we have an excellent balance of current income generating assets and long dated earnings growth.

Let me now turn and talk a little bit about the financials. A key metric for us continues to be funds available for distribution or FAD. During the third quarter, total FAD was $10.1 million made up of $25.7 million from our equipment leasing portfolio, negative $6 million from our infrastructure investments and negative $9.6 million from corporate.

Our equipment leasing FAD was comprised of FAD from aviation at $27.5 million. Note that we made no opportunistic sales this quarter, we could have made several profitable trades and instead opted to retain longer term lease deals.

Netting out the proceeds from sales in Q2, aviation FAD went from $21.5 million in Q2 to $27.5 million in Q3 or a sequential increase of 28%. Offshore energy was minus $1.8 million of FAD an improvement from Q2 and FAD minus $3.8 million. The improvement was a result of both the pride and the pioneer being on charter for part of the quarter.

Our infrastructure FAD continues to be negative $6 million but better than Q2 when it was negative $6.8 million. This improvement was a result of lower operating costs realized at the both Central Maine & Quebec Railway, the QR and an increase in spot business at Jefferson.

Turning now to talk about leasing, our aviation business is in the strongest position since we began five years ago. Our competitive advantage stems from our deep engine technical knowledge and maintenance management expertise. We continue to refine and improve the business model by investing in our people, sharpening the focus and developing maintenance expense savings programs to further widen the mode between us and the rest of the industry.

I would like to highlight the financial performance in Q3 and point out some key return metrics. With average book equity of $450 million in Q3, aviation generated $28 million and $16 million of adjusted EBITDA and net income respectively for the quarter or approximately $110 million and $66 million respectively on an annualized basis.

Even with some lag from the ramping up of the portfolio, aviation produced annualized EBITDA returns and ROE of 25% and 15% respectively, which is why we find this such an attracted business. And we continue to invest in additional attractively priced assets.

Since September 30 the end of Q3, to date we have closed on an additional $55 million with two aircraft and seven engines and we have another $135 million under signed letters of intent. Assuming these deals under LOI close and there are no asset sales. Our portfolio would consist of approximately 40 aircraft and 70 engines totaling approximately $650 million in invested equity capital.

Turning to offshore quickly, offshore remains a distressed and a difficult business and difficult part of our portfolio. Companies in this sector continue to restructure, and once again this quarter, several liquidating. Ultimately, this is good as it reduces competition and limits capital for new assets, which will help bring asset supply and demand back in balance overtime.

While the market continues to be driven by short-term contracts, we are however seeing an increase in tendering activity for inspection repair and maintenance projects in 2017. The fuels like the industry has hit bottom, but 2017 may again be a slow year, but better than 2016.

We expect offshore to be breakeven or slightly positive from both an adjusted EBITDA and FAD basis and towards the end of 2017, we will look at this sector to determine if we think we can earn a good return or we should redeploy the capital elsewhere.

Let me turn now to talk about the infrastructure portfolio. We have four port and rail terminals in North America. Jefferson, Repauno, CMQR, and Hannibal. The common theme of these properties is a location in a healthy and growing industrialized area combined with excellent rail, water and road connectivity. A good location with efficient transportation options is where we believe, we will produce long-term value creation with high barriers to entry.

Focusing on Jefferson as we have outline this year, we have been pursuing four areas of business development. One, Canadian crude by rail, two crude blending and storage, three, ethanol by rail storage and distribution and four, refined products to Mexico by rail.

With respect to Canadian crude, we have moved several strains of undiluted crude to Jefferson this quarter and had delivered new test blends to the market. We are actively engaged with both size of the market securing long-term demand for our customize blends while likening in sizeable supply contracts of attractively priced heavy crude. In addition, we expect the constraint so on pipeline capacity out of Canada to increase in 2017, which should provide further pricing advantages for rail.

With respect to the 500,000 barrels storage project for heavy crude, which we announced on the last call, construction has begun and we expect that project to be online and generating EBITDA in Q3 2017 and we continue to pursue other storage and blending deals.

As to ethanol, the project is also in full swing and we and Green Plains expect product to be moving through Jefferson early in Q3 of 2017. The market response has been very strong and as such we and Green Plains have decided to increase the terminal capacity by adding 50,000 barrels of tankage to the previously announced 500,000 barrels.

We are in active negotiations with approximately 10 customers, potential customers in addition to Green Plains and hope to finalize several deals by the end of this year. We and Green Plains believe the project is going better than originally planned and we expect that our run rate EBITDA will be near the upper end of our previously announced range of $5 million to $10 million per annum.

With respect to refined products to Mexico, we continue to move forward with multiple parties. As Mexico deregulates its energy sector and allows new entrants into the market, Jefferson is working with local refineries to supply large and growing inland markets in Mexico with refined products by rail.

Several Gulf Coast refiners are very serious about establishing a presence in Mexico soon to be able participate in a very large and growing market over the next decade. Based upon our current negotiations, we hope to execute a contract by the end of this year.

Turning to Repauno, since closing on Repauno in July, we have been doing several things. One permitting and preparing the 186,000 barrel carven for butane storage. Two, negotiating with an auto importer for long-term use of the docks in 100 acres. Three, in discussion with several industrial tenants for build-to-suit warehouse development and four, master planning in energy storage and distribution for natural gas liquids and crude.

We estimate that we will invest approximately $15 million to $20 million in the Butane initiative between December this year and March 2017 with operations commencing in April 2017. We expect Butane to generate a minimum of $2 million to $3 million of annual EBITDA which is a decent start on what we think will be a very substantial business.

The Central Maine and Quebec railroad had another good quarter with car loads and revenues up 1% and 11% respectively year-over-year. We will likely continue to see a shift in low margin haulage traffic to higher margin long haul to better drive profitability. The management team continues to focus on excellent customer service and maximize our share in the market and add long-term development projects particularly around the port of Searsport.

On Hannibal, we have progressed through the first phase of the PJM interconnection feasibility study and are moving into permitting, which will take approximately six to nine months. All signs are currently positive for development of a new 500 megawatt gas fire turbine power plant which takes advantage of the excellent location and infrastructure at Hannibal and the point of low cost gas and ethane available in that region.

To sum up, FTAI has an outstanding aviation business, which is producing significant cash flow and earnings to pay the dividend and our portfolio of infrastructure port and rail terminals will provide excellent earnings growth and value creation opportunities over the long-term. And because we currently have low leverage, we have access to debt capital which will allow us to continue to grow aviation and build out the infrastructure portfolio.

With that, let me turn it back to Alan.

Alan Andreini - *Fortress Transportation and Infrastructure Investors - Managing Director, IR*

Thank you Joe. Operator you may now open the call for Q&A.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) And our first question comes from Justin Long from Stephens. Your line is now open.

Justin Long - *Stephens Inc. - Analyst*

Thanks and good morning. Maybe the start given the additional momentum that you've seen in aviation, Joe, do you have an updated expectation on when the overall business will start to cover the dividend?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Well, as I mentioned, if we close on the deal as we have under letter of intent, we would be generating in access of $150 million per annum of FAD, which more than covers the dividend and SG&A. And I expect that should happen in end of Q1 early Q2 next year.

Justin Long - *Stephens Inc. - Analyst*

Okay. And I guess what I'm really getting at is from an infrastructure standpoint when do you expect those assets to be around breakeven?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Well, I mean, the two projects we have talking at the storage and the ethanol both start in Q3 of 2017 and so those additions will help bring the whole portfolio to breakeven or very close to that, in that range.

Justin Long - *Stephens Inc. - Analyst*

Okay, great. That's helpful. And then on Jefferson, it sounds like there are a lot of contracts that are currently in the works and you touched on that. When you assess the opportunities for incremental business at Jefferson, just looking at what's being discussed today. What's a reasonable longer term FAD target for Jefferson?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Well, I think, when we look at the total of opportunity across the different segments North of $100 million of EBITDA is a number that we keep as our goal or our target.

Justin Long - *Stephens Inc. - Analyst*

Okay, great. And maybe one last one, it seems like, there is a pretty strong appetite for buyers of short line railroad right now. Given some of the improvements you've made in CMQR. Would you consider divesting this asset and reallocating that capital to another segment of the business like aviation?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Well, everything in our personally has a price, and so we would consider it. I do think there are a number of development opportunities. The first phase of what we did was to get the railroad back operating on a good schedule and customer service levels are up. And so we're doing a very good job executing. I do think there are some business development opportunities out there that we've got in the pipeline that are material that would probably bringing one or two those to fruition before we thought about doing something like that. But ultimately yes.

Justin Long - *Stephens Inc. - Analyst*

Okay, great. I'll leave it at that. Congrats on the quarter.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Thanks.

Operator

Thank you. And our next question comes from Devin Ryan of JMP Securities. Your line is now open.

Devin Ryan - *JMP Securities - Analyst*

Hey, thanks very much. Good morning, guys.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Good morning.

Devin Ryan - *JMP Securities - Analyst*

Maybe just going to back to the last one, I just want to make sure that I'm unclear here. So on the aviation LOIs is the expectation at those will close hopefully by year-end and then the full contribution will be kind of end of 1Q, 2Q so the demand coverage or is that when the deals should all close that backlog?

Scott Christopher - *Fortress Transportation and Infrastructure Investors - Interim CFO*

I don't think they will all close by the end of the year. I think some portion but they will be some -- they will go over into Q1 before. But I expect that generally they should all be closed by the end of Q1.

Devin Ryan - *JMP Securities - Analyst*

Okay, got it. And obviously the EBITDA returns on that business have been phenomenal, 20% plus. Is the expectation on kind of the pending deals, do they have the same characteristics or they should be able to do the same type of return?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

They do. Yes, we haven't seen any pressure, anything that I have seen is sort of been even if anything on the positive side in terms of opportunities set.

Devin Ryan - *JMP Securities - Analyst*

Okay, great. And with respect to Jefferson, a couple of things you mentioned crude by rail, refined products to Mexico. How fast after signing a contract do you think those could impact results? I understand that some of the existing contract that you have like on the ethanol side, there's a bit of CapEx and the runway to get those to contribute. But I suspect the crude by rail or Mexico could be a lot quicker. So just trying to think about those opportunities from a timeline perspective.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

No, that's true, they are both quicker because the existing infrastructure is pretty much in place to execute on those. So it's really just lining up some of the equipment in the supply side, but it's not as longer lead time as the ethanol or the storage is. Ultimately building storage for any deal requires probably six to nine months at least of lead time, but we do have existing storage in place and storages being built. So we can manage that transition.

Devin Ryan - *JMP Securities - Analyst*

Got it, okay. And one on offshore, I appreciate the outlook there and understand you kind of revaluate towards the end of next year. To the extent you decide and I know it will be market dependant, but if you decide to kind of move on and maybe there is a better return opportunity in something like aviation. Do you think you could maybe get out of these assets reasonably quickly and do you think you will get out of at par just as you're looking at it today?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

I do, I mean don't think right now it's a good time to do that but I do think that the market will come back in the balance, because there are a lot of existing assets that are in place out in the world and what I think a lot of companies and as you probably are aware any big offshore operator has cut back CapEx in 2016 and I think will continue to push as much of that office as far as they can, but there's a limit to how much you can do, you have to maintain your existing infrastructure in existing field. So I do think that the market will come into balance and there'll be a good -- there'll be an opportunity if we want to get out at decent price.

Devin Ryan - *JMP Securities - Analyst*

Okay, great. I'll leave it there, but appreciate all the extra color in this quarter.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Thanks.

Operator

Thank you. And our next question comes from Ariel Rosa from Bank of America. Your line is now open.

Ariel Rosa - *Bank of America Merrill Lynch - Analyst*

Hey. Good morning, guys. First question just wanted to ask Joe, it looks like the aviation portfolio you guys obviously have some pretty big ambitions there. Could you maybe discuss a little bit, what's the availability of aviation assets and obviously assuming you're going to take disciplined approach with I guess more specifically the availability of attractive to aviation assets that kind of meet your criteria?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Yes, we've been very disciplined as a buyer and so we don't set a specific target of deploying capital because that's a little bit of a -- that's a contrary way of approaching it. But we have seen quite a few deals that fit our profile and I think that the market opportunity is quite substantial particularly when I look ahead and I've mentioned this before the 737-700 and 800 and to some extent maybe not quite as clear winner.

But the A320 market as well and both of those planes going to be out of production, the new models are coming in. And as those assets cascade down that becomes very, very squarely in our the sites and we have actually seen several deals in the recent quarter or two that fit exactly into the profile.

And just to remind you, the 737-700 and 800 market is when all -- when that production line is finish will have about 7,000 aircraft flying around the world and each of them have two engines and they're all -- it's all one engine type. So that's a $50 billion market just in the engines alone. So I don't see us having to push the limits of deploying capital and change our return profile at any time in the future and that's specifically not when we intend to do.

Ariel Rosa - *Bank of America Merrill Lynch - Analyst*

So I guess in terms of sourcing those deals. Are you guys regularly getting incoming calls on that or is it you guys going out and searching for those deals actively?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

We do both, but we're more successful when we're proactive. It tends to be better to say this is what I want to -- this is what I -- it fits my profile and then go find it as appose to waiting for people to call you.

Ariel Rosa - *Bank of America Merrill Lynch - Analyst*

Okay, great. That's helpful. So just one other question on aviation and then I'll move on. But talking to me a little bit about how recession proof that segment is. I think for a long time the narrative around FTAI was that one of the attractive aspects of it was that it was pretty broadly diversified. But I guess, some investors could raise a concern as you move toward aviation, if there's a downturn in that segment of the portfolio, all of a sudden you guys can be left a little bit vulnerable. What is the kind of consideration there and what is the counter point to that concern?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Well, I think if you look back in 2009, when you had a fairly significant economic contraction, aviation actually performed quite well for several reasons. One, if you have different geographies, where your assets can operate in and they don't all move in the same direction, so you have got a global marketplace. And secondly, you have different lease expiration, so you don't have them all coming off at once.

So the business actually, it was pretty resilient. It really is a function of duration, if a downturn lasts substantially longer than it has in the past that could dampen demand, but generally they've been six months or a year where you've seen periods of softness in traffic and you haven't seen much of an impact on leasing income in revenues.

The other thing we've done with our portfolio that I feel really good about is we have debt on it. And so when you take that economic if you have rents or income declining and you have got 80% leverage, you have a very different situation than when you have no debt. So I feel like we're in a -- and also what really matters it's very hard to communicate well to people is price you pay for the assets. So we've bought assets at good prices, we collect on average about 25% a year in cash. And so that is a very, very significant mitigant on the volatility in and out itself.

Ariel Rosa - *Bank of America Merrill Lynch - Analyst*

Great. And then -- so on the balance sheet, moving on to that question of kind of flexing your ability to add a little bit of leverage. Is that something that's in the cards for say the next 12 months and obviously you have slightly declined in cash balances? Is that something that -- would you look to the debt markets to bolster that a little bit?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Yes. I think that there's a reasonably good probability that given that the investment pipeline that we have right now that we would probably look to do something in three to six months would be most likely.

Ariel Rosa - *Bank of America Merrill Lynch - Analyst*

Okay that's helpful. And then just last question I'll ask and it's kind of the flipside of Justin's question, but given the number of rail assets that have come up for sale over the last call it two quarters. Have you guys been looking at those? Are you pretty happy with kind of where the portfolio stands? It sounds like you have obviously got a number of balls in the air. Would you guys add additional assets at this point, especially infrastructure assets or is the focus right now kind of more on developing the assets that you have?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Well we look at things that are available and we followed the recent assets has been sold. So -- but we're very disciplined on price and some of these price have been pretty high and when we look at our portfolio, we have four really good assets that will give us a lot of opportunities to grow over the next decade and so we don't feel the pressure that you need to go buy something.

And so the combination of those two, I don't think it's extremely likely that we would be on buy side of those unless the market changed in terms of its valuation. On the flipside, we own four great properties, which I think are worth more. So I feel good about that.

Ariel Rosa - *Bank of America Merrill Lynch - Analyst*

Okay, terrific. Thanks guys.

Operator

Thank you. And our next question comes from Chris Wetherbee of Citi. Your line is now open.

Chris Wetherbee - *Citigroup - Analyst*

Hey, great. Thanks. Good morning guys. On the aviation side, just kind of curious it's become a bigger piece of portfolio, how do you think about the duration of the contracts there? Is there an opportunity to stretch duration to some degree, and kind of give some more consistency to the production of that business? I'm just trying to get a sense of as its sort of morphed within the portfolio, the size within the portfolio if there's any adjustments you can do to the traditional sort of shorter term duration that we normally expect at aviation?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

There are some opportunities and we've got some products that we're developing that I think are pretty interesting that would accomplish that. If you break it into two pieces though, you have an aircraft component and our average duration is around three years and maybe we could extend that out to four years or something like that. But with the age of aircraft that we're operating, I wouldn't expect that would be a dramatic improvement.

Where I think we can add some duration is in the engine side and there's a couple of deals where we've actually taken an airplane and sold the airframe to the lessee and then lease some engines and those engine deals actually will run until the engine needs to be overhauled.

So that would extend the duration of at least out from a year to probably two, three, four years in duration. And so I think that's an interesting development and one that we're very excited about and I think it gives us economics that are comparable to leasing an entire aircraft with much lower risk position.

Chris Wetherbee - *Citigroup - Analyst*

Okay, yes, that certainly makes sense. And when you think about sort of the portfolio and the aviation piece getting to a point where it can sustain the dividend and SG&A from a FAD perspective. Do you grow from there? So I guess once you kind of execute on the LOIs that are out there, you get to the point where you're generating enough FADs from this business to essentially sustain the dividend. Would you be interested and continuing to grow that or is that the national pivot point towards more focused on the infrastructure get that ramped up?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Well, originally we were targeting having a two to one coverage of the dividend. So having $200 million of FAD to cover -- net FAD to cover $100 million of dividend so I think when we got to that point, we would consider growing the dividend.

Chris Wetherbee - *Citigroup - Analyst*

No, I guess my point is would you want to generate that much FAD from aviation or would you sort of slowdown on the aviation growth with more of a focus on the infrastructure maintaining the distribution where it is today?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Okay. Well, I think that there will be growth in the infrastructure FAD we hope meaningful growth in that so that there'll be more of a contribution from that overtime. So there'll be balance in the portfolio. It's just that early on -- we're early in sort of the growth opportunity of the infrastructure side are developing, but I expect that to grow and balance out the composition.

Chris Wetherbee - *Citigroup - Analyst*

Okay. But there's nothing that says that you just sort of stop or maintain the portfolio at certain point, you'd be more than -- you'd be willing to continue to look at aviation asset to the extent that they're attractive even at those levels?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Yes.

Chris Wetherbee - *Citigroup - Analyst*

Okay, that's helpful. And then just one more, just to make sure, I'm sort of clear on kind of how you're describing this. So in the first part of 2017, we can get to the point where aviation is covering the distribution and then I think you're suggesting that maybe around the third quarter or fourth quarter of 2017, the infrastructure side of the business gets to a point where it essentially is breakeven. So that's kind of the -- that's sort of the trigger point if you will full coverage. So one-time coverage to that point obviously have a goal of two times, but one time is kind of the -- that's sort of the timing that you are kind of giving us in terms of distribution coverage, correct?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Yes. Although I think the aviation will cover the dividend earlier than that. But ultimately when you look at both components, yes.

Chris Wetherbee - *Citigroup - Analyst*

Okay. Aviation -- that's helpful. Okay. Perfect. Well thanks for the time guys. I appreciate it.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Thanks.

Operator

Thank you. And our next question comes from Brandon Oglenski of Barclays. Your line is now open.

Unidentified Participant

Good morning. This is [Van] on for Brandon. Thank you.

Just wanted to follow-up on Chris's question that two times dividend coverage for the aviation portfolio. Assuming you think about growing the dividend at that point. Keeping in mind that that could seemingly happen relatively soon in the, I don't know, next year or two. Are you comfortable enough kind of with where the infrastructure portfolio is to begin growing the dividend at that point? Or is it -- would you consider growing it independently of what's going on in the infrastructure portfolio. Could you just give us an idea of kind of how you're thinking about that?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Well I am very comfortable with what's going on in the infrastructure portfolio and I think we should have a number of significant developments in 2017. And so you can't look at it totally independently, but I feel very good the prospects for all those properties.

Unidentified Participant

Okay. And then just kind of trying to understand the EBITDA bridge to FAD at Jefferson. It's pretty close one-to-one for the aviation portfolio and understanding there's going to be ongoing cash investments into the infrastructure business. How can we kind of think about that FAD bridge going forward and not just for Jefferson but maybe for some of the others as well?

Scott Christopher - *Fortress Transportation and Infrastructure Investors - Interim CFO*

Yes, hi this is Scott. Usually that bridge -- you know one of the major components associated with that bridge when you're looking at adjusted EBITDA to FAD is really the debt service is the major component that's actually going to show that delta. So any business that we have that's going to have any sort of leverage in it, you're going to see that bridge and that's usually going to be the primary driver. There's some other ancillary items, but that's usually the biggest component.

Unidentified Participant

All right. Thanks guys.

Scott Christopher - *Fortress Transportation and Infrastructure Investors - Interim CFO*

Thanks.

Operator

Thank you. (Operator Instructions) And our next question comes from Robert Dodd of Raymond James. Your line is now open.

Robert Dodd - *Raymond James & Associates, Inc. - Analyst*

Hi, guys. On the infrastructure side, actually on the offshore, you mentioned that you'd consider disposing of that if you just can't get the returns you want. What's the framework if you could -- obviously right now in the current economic energy oil, et cetera, environment obviously the returns aren't there. You mentioned normalized environment maybe up, I mean what's the framework you are going to use in this scenario, for lack of the term, to determine whether there is assets to worth keeping or whether the capital could be better deployed elsewhere and for example the aviation segment.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Sure. Well I think we have return targets for aviation of north of 15% more like 20%. So that continues and that would be a good way to benchmark what we think we would -- the opportunity cost of not investing in that sector. So I would say at least 15% returns unlevered and possibly higher.

Robert Dodd - *Raymond James & Associates, Inc. - Analyst*

Okay. Got it. Thank you. And then also just back to the aviation segment, I mean obviously LOI is $190 million, I mean if they close a couple of quarters I mean, is there -- and you mention several other aircraft types that are coming towards a point where they may be very attractive to you. I mean is this an acceleration in the rate of which you can deploy capital? Because the run rate before had been kind of round numbers, $100 million a year. Now you're, over the next couple of quarters, potentially $200 million, I don't want to say that's going to be the run rate. But is the a -- have we hit a kind of an inflection point in your ability to put incremental capital into that business or are these LOIs just a timing blip, a good one, but where we would expect to see much lower rates of capital deployment than that going forward?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

No, that I think it's a little bit of both and just on the numbers we have $135 million of LOIs currently. We've closed on $55 million already.

Robert Dodd - *Raymond James & Associates, Inc. - Analyst*

Right, right, right, right.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

There's $55 million of the $190 million is already closed. And there is -- I mean there is an increase in the size of investment opportunities. I think that is related somewhat to the 737-700,800 opportunity that I mentioned before, which is not unexpected. That's actually what we have been planning for over the last several years to be in a position to take advantage of that.

So I do think the size is larger than previously, but there's also some element of -- it's a deal business right. So things tend to be lumpy. So I wouldn't necessarily characterize that as a run rate. And there's also -- it tends to be in this business an increase in activity around the end of the year when people are changing portfolios and getting things done. But I do think that the size of the opportunity is and investment opportunity has grown and increased.

Robert Dodd - *Raymond James & Associates, Inc. - Analyst*

Okay. Thank you.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Yes.

Operator

Thank you. (Operator Instructions). And our next question comes from Tom Wadewitz of UBS. Your line is now open.

Thomas Wadewitz - *UBS - Analyst*

Hi, yes. Good morning. Just wanted to ask you a little bit more about the questions related to Jefferson. I think on the last call, you'd expressed there's a bit of optimism about potential for business [KDE] business to develop and that there were -- it sounds like there were some things that you were testing or discussing. What's the status of that? Is that still promising or would that be out quite away that you might see things develop on the Canadian side?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

No. We're still very -- it's still very promising and we've been doing a lot of -- as I mentioned we have several different tests plans that we've brought through. We've brought a number of trains into the terminal. We have three different Canadian crudes that we've sourced and we've a couple of different blends that we are both selling in the market to people -- have sold to people and are trying to get people to test and try it also. But the economics look pretty attractive, the market wants these crude, so I think we feel very good about the possibility.

And then as I mentioned, Canadian production continues to rise and so when you talk to the producers in Canada, I think they all expect that there will be an increase in rail activity from the Canadian market in 2017. And that's really where we have the maximum competitive advantages just moving that undiluted crude by rail to the Gulf. And so we still feel very good about it. It's never fast enough obviously, but we do have quite a focus in the organization on trying to bring that fruition in a sizeable way.

Thomas Wadewitz - *UBS - Analyst*

And when you say undiluted, are you talking about moving just pure bitumen or are you talking about moving kind of rail bits or what do you mean by that?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

So it's more the -- we have the Lloydminster undiluted, which is conventional production out of the ground. It has a small amount of drill unit, but it's not a rail bit that would be 11, 12 API. We have another crude that we've delivered over 2 million barrels of that which is a side [seg D] production and so that has about 15% diluent in it from the production and there's some diluent recovery units that people have been investing and that we bring that down even lower.

And then the last is a crude that is a very, very heavy crude that comes out of an upgrade or it's about 5 API, so very low diluent content. So those are the three different types right now that we've been sourcing.

Thomas Wadewitz - *UBS - Analyst*

So where do you think -- it seems that if things actually happen with -- and that could be sizeable in terms of impact for Jefferson? So what should we look at to be the catalyst, is that higher price than the just higher crude price, WTI brand? Is that a further widening at the discount, if you look at WCS versus I don't know [Myar] or Brent or whatever benchmark you want to look at? Is it just production growth in Western Canada or is this kind of all of the above?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

It's a little bit of all the above. I mean the spread for WCS versus WTI helps if that widens out, so that's good. And then also just increasing production out of Canada I think. But the economics today, work on the barrel if obviously they get better, that's good but they work today and I think rising production will continue to force crude to come to the Gulf and rail is a great way to do it. So I think those are the things that we focus on.

Thomas Wadewitz - *UBS - Analyst*

When do you think you get to the point where it does get a little tighter given that you had some constraints on pipe capacity out of Western Canada? Is that kind of mid next year that you think you might reach that or is that pretty tough to identify?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

You know I think anecdotally its happening to some extent already and, I think it's not a -- I don't think it's a step function. So I think it will gradually increase over 2017 and people are talking about it already. So we see some evidence of that already in 2016, but hopefully 2017 is when you -- early 2017 is when you see more of it.

Thomas Wadewitz - *UBS - Analyst*

Right. Okay, so maybe just a last one on that. I'll pass it along. But are you pretty optimistic that January you might have a deal or is this something where you're just kind of people will ramp up their testing and activity and it's not really a deal. It's more or like a spot activity that becomes more regular overtime?

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

I will take either one. We're working -- we'd like to have a large deal and that's certainly something we are pursuing but also if people are ramping up and we're building up volume through train activity that's good too.

Thomas Wadewitz - *UBS - Analyst*

Right, okay great. Thanks for the insight, Joe.

Joe Adams - *Fortress Transportation and Infrastructure Investors - CEO*

Yes.

Operator

Thank you. And ladies and gentlemen this does conclude our question-and-answer session portion of the call. I would now like to turn the call back over to Alan Andreini for any further remarks.

Alan Andreini - *Fortress Transportation and Infrastructure Investors - Managing Director, IR*

Thank you. Thank you for participating in today's conference call. We look forward to updating you after Q4.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone have a great day.
